

# CHAPTER 3: FINANCIAL TRENDS

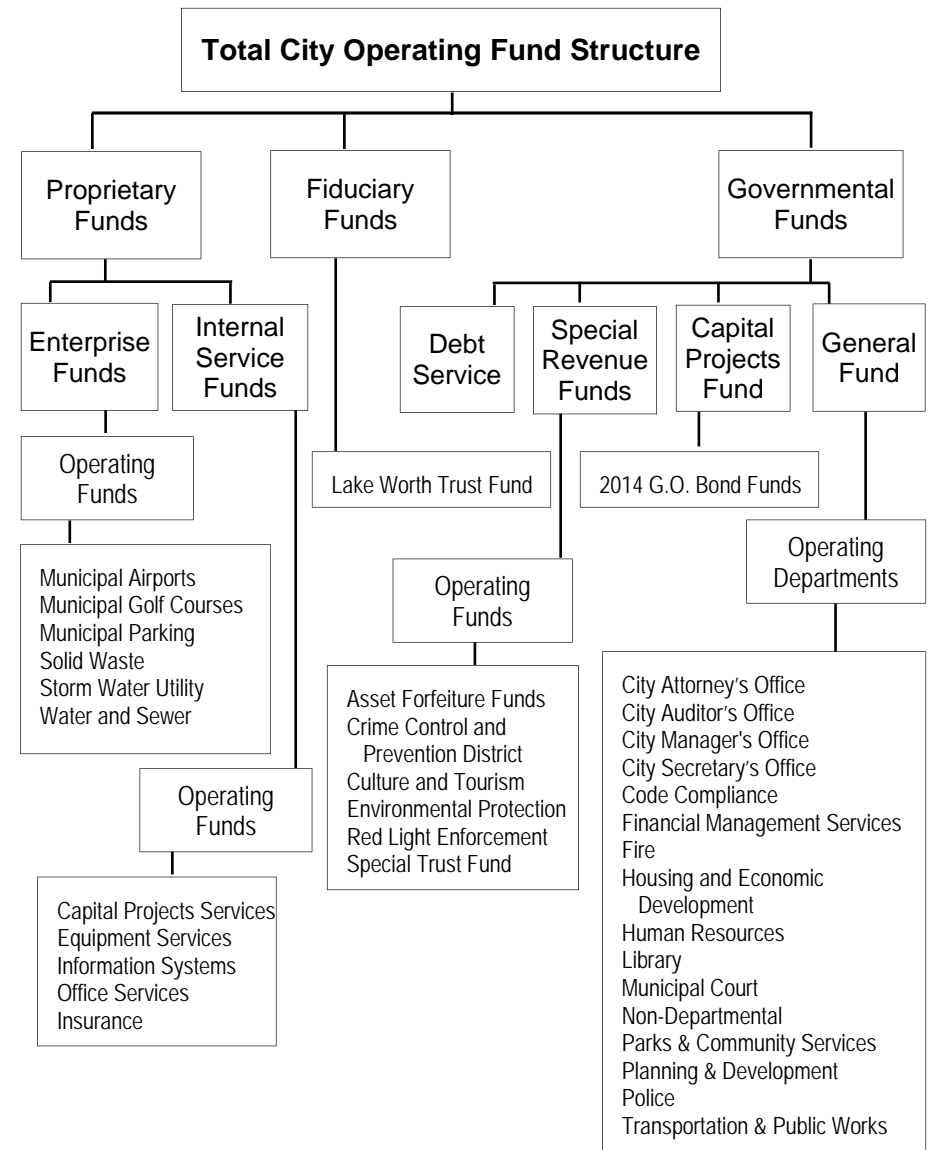
Population growth and economic trends greatly affect the financial planning process of the City of Fort Worth. City officials must consider this information, as well as local revenue trends, debt capacity, and the cost of new facilities when responding to the needs of citizens. During periods of economic contraction, the City of Fort Worth is fiscally prudent and pays particular budgeting consideration to the continuation of providing services to citizens. Economic expansion and population growth call for detailed fiscal planning to provide new infrastructure and public services.

This chapter presents information on financial planning as it applies to a local governmental entity and summarizes past, present, and future financial trends of the City of Fort Worth. Monies received by the City are accounted for with a City Operating Budget and a Capital Budget. In the operating budget, accounts are grouped under the categories of Enterprise Funds, General Fund, Special Funds, and Internal Service Funds. The chart shown on the right lists specific departments funded through each. Enterprise funds account for city services that are financed and operated much like private businesses, where the costs of providing services (both operating and capital costs) are financed through user charges. The City seeks to eliminate all forms of subsidization to enterprise funds. The General Fund receives the largest amount of revenue in the overall City budget. Internal Service Funds are established to account for the financing of goods or services provided by one department of the city for another. Special Fund accounts are set up to track revenue and expenses incurred for the various items listed.

Funds received from grants are handled through a separate budget. The adopted budget shows a total allocation of \$81,285,919 from various grant sources to the City of Fort Worth. Significant sources include:

- Bureau of Justice Assistance for support of Police initiatives.
- Federal Aviation Administration for construction projects at City airports in the Aviation Department.
- Texas Department of Housing & Community Affairs for weatherization, energy assistance, and other community services in both the Parks & Community Services and Housing & Economic Development Departments.
- Texas Department of Transportation to Police for traffic safety initiatives, to the Aviation Department for airport maintenance, and to Parks & Community Services for park projects related to bicycle and pedestrian mobility.
- Texas Parks & Wildlife Department to Parks & Community Services for urban recreation and park improvements.
- U.S. Department of Housing and Urban Development to the Housing & Economic Development Department for housing assistance and community development.

Fort Worth has an abundance of resources and a diverse economy that has made it successful in attracting new businesses, investment, and jobs. According to the North



The City's operating budget is composed of five funds that support operating departments and City accounts. Information in this chapter looks at the financial trends that impact these funds. (Source: FY2015 Adopted Budget.)

Central Texas Council of Governments (NCTCOG), the total employment for the City of Fort Worth will continue to rise at a rate of 1.5 percent annually through 2030. The city has ample land for growth, excellent job-training facilities, a growing population, and adequate infrastructure in developed areas. These positive factors are an indication of economic prosperity, which typically leads to an expansion of the economic base and increased revenue for the City.

### Revenues

The economic outlook for Fort Worth is encouraging, with both property tax revenue and fee income continuing to grow. Revenue growth enables City staff to implement the FY2015 budget priorities, while also allowing the City to cover overages in General Fund costs while contributing a small amount to the City's fund balance.

### Property Tax

The City receives a significant portion of its revenues (52.8% of the FY2015 adopted revenue budget) from property taxes assessed on real and personal property. City staff works with appraisal districts from Tarrant, Denton, Wise, and Parker Counties to prepare property tax revenue projections. By State law, each appraisal district is responsible for the valuation of all property within its jurisdiction. The certified property tax rolls received from all four districts in July 2014 showed an increase in the City's property tax base. In comparison to the July 2013 certified property tax roll, the July 2014 certified property tax roll reflected the following improvements:

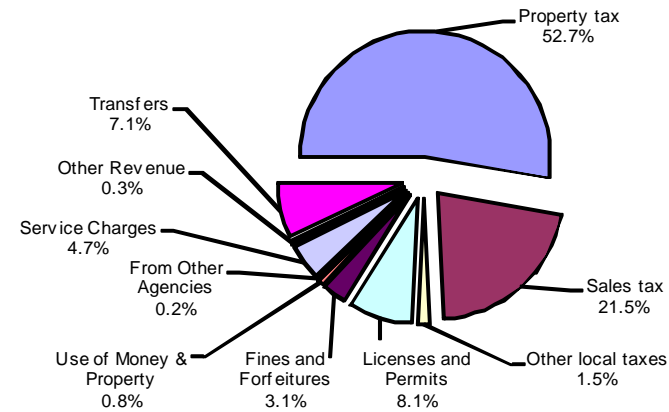
- 6.3% growth in adjusted net taxable property value
- 5.2% increase in property exemption values
- 30.6% increase in net taxable values for new residential construction
- 0.4% increase in net taxable values for new commercial construction

When updating the five-year financial forecast and preparing the presentation for City Council, staff analyzed many of the factors affecting property tax revenue, including anticipated population growth, historical change in values for residential and commercial properties, current and projected permitting data, the impact of foreclosures, as well as exemptions and protests. Staff also evaluated the allocation of the levy amount, and resulting availability of revenue for operations and maintenance (O&M), as compared to the amount available to repay the City's debt. In previous years, the City Council abided by its commitment to build capacity for capital projects by shifting a portion of the City's property tax from O&M to debt service. The City's ability to defer shifting an additional cent from O&M to debt for FY2015 until FY2016 is supported by:

- Multiple transfers to debt service from residual project funds
- Reimbursements from other funds in an aggregate amount equivalent to one penny of tax rate

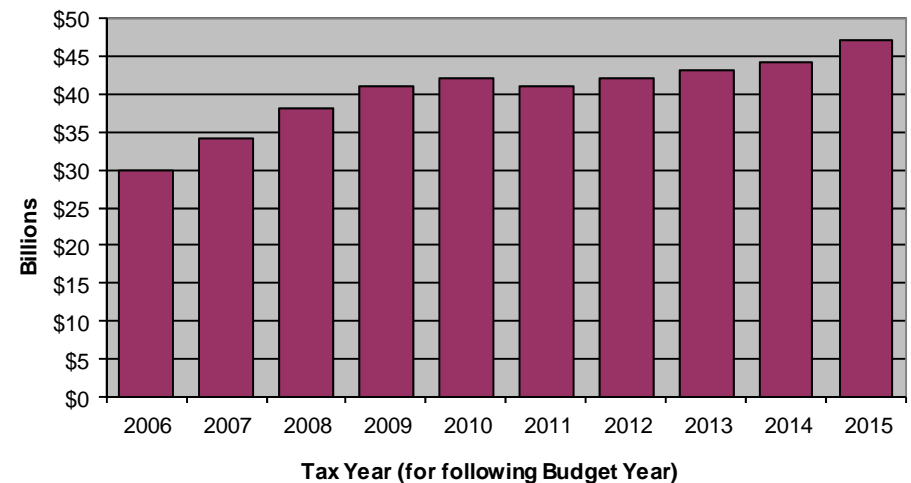
For FY2015, the City's combined property tax rate remains at \$0.8550 per \$100 of assessed valuation with a 98.5% collection rate. Based on the O&M levy rate of \$0.6759 per \$100 of assessed valuation, the General Fund portion of the property tax

**General Fund Revenue Budget: FY2015**  
**\$543,795,571**



Property tax and sales tax revenues account for the majority of money in the General Fund. Budget percentages of revenue for FY2015 are shown in this chart. (Source: FY2015 Adopted Budget.)

**Adjusted Net Taxable Value**



Adjusted Net Taxable Value is the basis of the property tax revenue forecast. It is the sum of the values of all properties in Fort Worth less exemptions. It reflects both the growth in existing property values and new property development. (Source: FY2015 Adopted Budget.)

rate is expected to yield approximately \$304.3 million in revenue for FY2015. The debt service levy rate of \$0.1791 per \$100 of assessed valuation is expected to yield approximately \$80.6 million, which will allow the repayment of all current and proposed debt obligations.

### Sales Tax

At approximately 21.5% of the General Fund FY2015 adopted revenue budget, sales tax collections are a major revenue component. Economic conditions in FY2014 continued to improve with the 12-month rolling average of sales tax collections achieving new record highs throughout much of the year. This trend is positioned to continue through FY2015 given that the Dallas-Fort Worth area was named one of the top retail construction markets in the country with over 2.6 million square feet of shopping, retail and entertainment space under construction at the start of the 2014 calendar year. The Texas Comptroller's Office reported that statewide collections for July 2014 were 5.7% higher than the previous year. Based on the FY2014 year-end budget projections, sales tax revenue is expected to exceed the FY2014 adopted budget by \$4.6 million, or 3.8%.

Among large Texas cities, Fort Worth is continuing a positive trend with year-to-date sales tax collections also up 5.7% over the same period last year, which puts Fort Worth's sales tax performance ahead of El Paso, Houston and Dallas.

There were no significant audit adjustments at the time of the third quarter re-estimates for FY2014, and the City continues to follow the 20-year incremental repayment plan agreement with the State Comptroller to refund the \$9.3 million in audit adjustments identified in FY2011. As of June 2014, the City has \$7.9 million remaining to repay with the last payment expected in August 2031.

### Expenditures

General Fund expenditures continue to outpace revenues due to a variety of factors, including rising supply and service costs, program and service level improvements, and personnel cost increases. The General Fund portion of the FY2015 Adopted Budget includes a planned use of \$4.1 million of excess fund balance to close the funding gap.

Salary and Benefits Changes. In keeping with the City's commitment to invest in its employees, the following salary and benefits changes are included in the FY2015 budget:

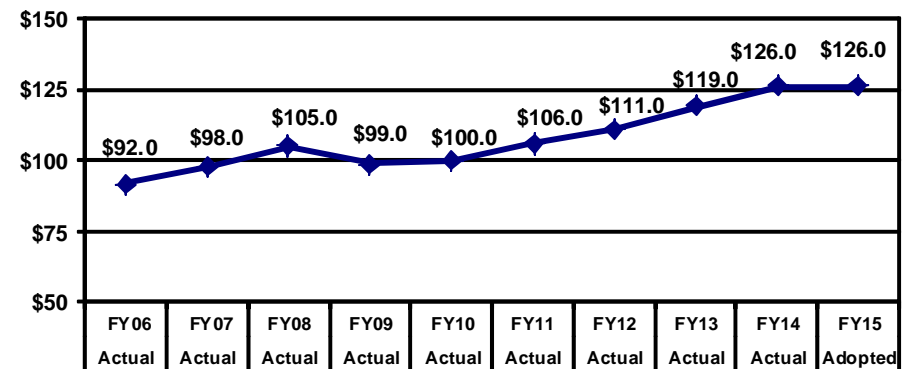
- Salary increases for sworn officers as stipulated by the Meet and Confer contract
- A 4% across-the-board salary increase for general employees, plus a 1% payroll increase to address specific classifications with recruitment and retention challenges
- Funding to provide training to support employee performance and development

### General Obligation Debt

Of the total amount projected for the upcoming fiscal year (FY2015), \$82,535,555 (41.26%) is for general obligation bonds, certificates of obligation, loans, and tax notes. Current property tax collections cover most of the debt service, assisted by delinquent

### Sales Tax Collections FY2006 - FY2015

In Millions



Sales tax revenues have steadily increased from 2010. The increases are primarily due to improving economic conditions demonstrated by actual receipts reported by the State Comptroller's Office. Current data suggests substantial collection growth in retail and wholesale trade will continue to drive the increases. (Source: FY2015 Adopted Budget.)

### Budget Growth Areas: FY2006-2015

	FY2006 (Millions of \$)	FY2015 (Millions of \$)	Change
<b>Police*</b>	<b>\$134,120</b>	<b>\$204,606</b>	52.6%
<b>Fire</b>	<b>\$84,143</b>	<b>\$118,688</b>	41.1%
<b>Parks</b>	<b>\$24,152</b>	<b>\$44,358</b>	83.7%
<b>Library</b>	<b>\$15,607</b>	<b>\$19,186</b>	22.9%

\* Police expenditures exclude Crime Control and Prevention District.

The departments shown have seen the largest budget growth in the ten years between FY2006 and FY2015. (Source: FY2015 Adopted Budget.)

property tax collections, a transfer from CCPD, and investment earnings. Projected revenues to cover debt service are as follows:

Current Year Tax Levy	\$80,625,087
Other Revenue, Including Existing Fund Balance	<u>\$5,604,000</u>
	\$86,229,087

State property tax law allows the City to levy a property tax to pay for its long-term (over 1 year) debt obligations. With a tax rate of \$0.8550 per \$100 in value for the next fiscal year, \$0.1791 (20.95%) of the total tax rate is devoted to pay long-term debt service obligations.

The maximum tax rate for all of the City's obligations is \$2.50 per \$100. Administratively, the Texas Attorney General will only allow up to \$1.50 per \$100 for all tax supported debt. This amount is calculated at the time the bonds are sold and based on 90% collection rate. Self supporting debt does not count against the \$1.50.

Long-term debt per capita measures the debt burden on citizens. Outstanding long-term debt per capita is approximately \$900. It is projected to increase somewhat over the next several years due to the infrastructure needs of the city associated with growth.

### **Challenges and Opportunities**

Higher valued new homes and businesses will increase property tax revenues, but more property owners will require city services. A healthy balance of commercial and residential uses is desirable to maximize sales tax collections in addition to property taxes.

It is important for the city to continue growing in a contiguous pattern, thereby reducing leapfrog development and avoiding unnecessary infrastructure costs. Generally, developers pay for on-site improvements, such as new local streets, storm water control, and water and sewer lines in subdivisions. However, the cost of upgrading or connecting collector and arterial thoroughfares, as well as building or upgrading public facilities, is borne by the City. Successful implementation of the growth center concept will aid Fort Worth in accommodating anticipated growth, while more efficiently allocating funds needed to construct capital improvements.

Fort Worth has demonstrated fiscal prudence during recent years by reducing debt load and reducing the tax burden on citizens whenever possible. The next few years will challenge City leaders as they provide for continued population growth while maintaining an acceptable level of quality services for citizens.